



Tennessee State Board of Accountancy  
Department of Commerce and Insurance

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## MEETING MINUTES

January 6, 2006

The meeting of the Tennessee State Board of Accountancy convened in the Davy Crockett Tower, Nashville, Tennessee on Friday, January 6, 2006, at 8:30 a.m.

Members present were Doug Warren, Chairman; Kenneth Cozart, Vice-Chair; William Underwood, Stanley Sawyer, Joseph Buffler, Robert Davidson, Terri Jeter-McAvoy, Vic Alexander and Al Creswell.

Also present were Linda Biek, Executive Director; Christy Allen, Deputy General Counsel; Alison Zane-Cleaves, Chief Counsel for the Regulatory Boards; Shauna Sims, attorney; Leona Johnson, Administrative Assistant; Mark Crocker, Investigator; Dan Syriac, Administrative Manager; Ross Nichols from the Assistant Commissioner's Office; Brad Floyd, Executive Director of the TSCPA; Mike Skinner, Executive Director of the Georgia State Board and Regional Director for NASBA; and Mr. George Parrott, CPA.

Doug Warren called the meeting to order at 8:30 a.m. and ask for a moment of prayer. Mr. Warren welcomed the Board Members and announced there would be two additional items added to today's agenda. 1) The Peer Review Committee will make a recommendation in regards to an action implemented by a previous Board. 2) Mrs. Mary Moody will report to the Board on the case of Darrel E. Tongate vs. State of Tennessee.

Mr. Warren introduced Christy Allen, acting counsel for the Tennessee State Board of Accountancy; Mike Skinner of the Georgia State Board and Regional Director of NASBA; Brad Floyd, Executive Director of the TSCPA; George Parrott, CPA and Mary Moody, General Counsel.

Ms. Moody passed out a report to all Board Members to update them on the current case of Darrel E. Tongate vs. State of Tennessee. She indicated that both parties had signed the Joint Status Report and it was filed with the chancery court. She also informed the Board Members that Mr. Tongate has changed attorneys but this was just a formality.

Mr. Warren informed the Board that Mr. George Parrott was present to request the imposed restrictions placed on his CPA certificate several years ago by the Board be removed. Mr. Underwood, a member of the Peer Review Committee, recently performed a review of an attest engagement performed by Mr. Parrott and found the work not to be considered sub-standard. Mr. Underwood recommends that the Board approve Mr. Parrott to perform attest engagements so long as he has a pre-issuance review of his reports by an approved reviewer within six months from the issuance date of the first report. The Board voted and approved Mr. Underwood's recommendation. Leona Johnson will send Mr. Parrott a letter informing him of the Board's decision.

Announcements: Given by Mr. Warren

- 1) Ernie Sykes is no longer the attorney for this Board. He is now with the Department of Health and we are waiting for a permanent replacement.
- 2) CPA Exam Report: Previously the volume of exam candidates were below the number originally anticipated and current statistics show that this is increasing. We have been put on notice that effective January 2008 the fees will increase. The AICPA portion will increase from \$65 to \$80 and NASBA's portion will increase from \$15 to \$18.

- 3) We have been notified by the Comptroller's Office that our Board must form an Audit Committee to comply with a new law that was enacted in 2005. Mr. Warren appointed the Executive Committee of the Board as the Audit Committee. The Audit Committee should form a Charter during its meeting in April. The full Board voted and approved the Executive Committee to serve as the Audit Committee.
- 4) Linda Biek serves on the Executive Director's Committee of NASBA and is a candidate for Chair of that Committee. Mr. Warren will write a letter of recommendation on behalf of the Board and he encourages others to do the same.
- 5) NASBA's CPE Tracking presentation given at its reception on January 5, 2006 was very impressive. He recommends that we invite NASBA to present the CPE Tracking presentation to the full board at the April Board Meeting.

Mr. Warren asked if there were any items on the Consent Agenda (copy attached) that anyone wanted removed for discussion. There being none, Joseph Buffler made a motion to approve the Consent Agenda. Bill Underwood seconded the motion; it was voted on and approved.

Linda Biek presented the Executive Director's Report: (copy attached)

Before giving her report, Mrs. Biek asked Mr. Skinner to address the Board to educate them about NASBA, the services they offer and the involvement opportunities for the Board Members. Mr. Skinner talked about how NASBA brings members of State Boards together to discuss common problems and ideas. NASBA is a great communication tool to brainstorm ideas to find solutions and have more uniformity between the State Boards regarding education requirements, peer review, CPE, complaints, etc. The Board Members expressed concern over the increase in exam fees. Mr. Skinner indicated that he would take the Boards concern back to NASBA.

In light of the information Mr. Skinner shared with the board regarding current issues throughout the country, Mrs. Biek informed the Board that she and Ms. Allen are working on a policy regarding Reciprocal disciplinary action between states.

- 1) Mrs. Biek announced the following Board Meeting dates asking Board Members to keep the Thursday before the Board Meetings open for Committee Meetings:
 

April 28, 2006	July 28, 2006
October 27, 2006	January 12, 2007
- 2) The on-line survey that was approved at the October meeting has been drafted and Mrs. Johnson is working to get it up and live.
- 3) The Executive Committee of the Board will also serve as the newly required Audit Committee.
- 4) Does Tennessee want NASBA to look for another vendor for the CPA exam as some others states have voiced in letters to NASBA? As it is now, the AICPA owns and writes the CPA exam. The AICPA is a trade organization; is it appropriate for them to own the exam? The AICPA has a 10-year contract with 8-years remaining. NASBA has a non-compete agreement until the current contract expires. After much discussion, the Board agreed to take no action at this time.

Bill Underwood presented the Report from the committee researching 120 vs 150 hours of education: Mr. Underwood reported that the members of this task force, by design, have done nothing at this time. The TSCPA is also studying this and Mr. Underwood asks that both task forces share information. Certain statistics from NASBA show an insignificant difference in the number of passing candidates with 120 hours and 150 hours. Wisdom calls for time to study this; there is no urgency.

Christy Allen presented the Attorney's Report: (copy attached)

Ms. Allen first introduced Shauna Sims as the new attorney in the Legal Department and Alison Zane-Cleaves, Chief Counsel for the Regulatory Boards.

- Ms. Allen reported that she and Board Member Stanley Sawyer had an informal conference with a CPA on January 5, 2006 in which the basis of the complaint addressed three (3) issues; 1) offering attest services without a firm permit 2) not responding to Board communication/notification and 3) a 2002 Audit that was not accepted by the Department of Municipal Audit (the audit has now been accepted). In addition, the work papers could not be produced for this audit at this time. The following offer was made to the respondent to settle this case: **A)** Pay \$900 in back firm fees. **B)** Pay a \$250 civil penalty for failure to respond. **C)** Have a peer review performed within six (6)

months. **D)** Pay a \$500 civil penalty for lack of due professional care or produce the work papers within ninety (90) days. Ms. Allen recommends acceptance of this offer as a resolution to this complaint case. Bill Underwood made a motion to accept the offer as presented by Ms. Allen. Vic Alexander 2<sup>nd</sup> the motion; after some discussion, the motion was voted on and approved. Ms. Allen will draft the consent order including the approved resolution offer and send this out to the respondent/CPA.

- If a licensee fails to pay the Professional Privilege Tax for two consecutive years, the regulatory board has the authority to file a complaint against the licensee and suspend their license per Tenn. Code Ann. § 67-4-1704. Ms. Allen recommends the Board adopt a policy where by **the “Failure to Pay Professional Privilege Tax” letter be sent to individuals that fail to pay the Professional Privilege Tax for two consecutive years as an opportunity to resolve the matter.** Robert Davidson made a motion to adopt the letter into policy. Bill Underwood seconded the motion; it was voted on and approved.
- Under Tenn. Code Ann., Title 36, Chapter 5, Part 7, the Department of Human Services requires suspension of professional licenses for individuals who are not in compliance with an order of child support. Ms. Allen recommends the Board adopt a policy whereby **the “Notice of Suspension” be issued to individuals who are not in compliance with an order of child support. The notice informs the individual that their professional license has been suspended and will remain suspended until such time as the individual comes into compliance with the order of child support. The Depart of Human Services will then issue a RELEASE to our agency and the suspension will be lifted upon payment of a five dollar (\$5.00) processing fee to be paid by the licensee.** Ms. Allen informed the Board that adopting this into policy would keep these cases out of the complaint process and would be handled in a more timely manner. Bill Underwood made a motion to adopt into policy the Notice of Suspension process to be administered by the staff. Joseph Buffler seconded the motion; it was voted on and approved.

Robert Davidson presented the Probable Cause Committee report: (copy attached)

- 1) Committee Members reviewed 53 cases as presented by Ms. Allen. Ten of the cases being reported were updated by the Committee and the changes are not reflected on the attached report: Case #19 Recommendation: Refer to investigations. Case #22 Recommendation: Consent Order with a Civil Penalty of \$750 and requiring a peer review within 90 days. Case #25 No change was made; however the Board should be aware that individuals believe if they are a sole-proprietor they are not required to register for a firm permit. Case #37 Recommendation: Refer to investigations. Case #38 Strike out the last sentence in the history of the complaint. Recommendation: Refer to investigations. Case #40 No change was made; The Board should be aware that this will be heard in a Formal Hearing at the April Board Meeting. Case #42 This case has been broken down into two cases. The 2004 case will be heard in a Formal Hearing and the 2005 case will be closed with a Letter of Instruction being issued. Case #44 Recommendation: Refer to Investigations. Case #45 and Case #46 (combined) Recommendation: Consent Order with \$1,000 Civil Penalty. Case #51 No change was made, but we wanted the Board take note of this case and the recommendation. Recommendation: Amend current Consent Order changing the civil penalty to \$1,500. Robert Davidson made a motion for the Board to approve the Probable Cause Committee Report and recommendations, excluding case #40, as presented. Bill Underwood seconded the motion; it was voted on and approved. Stanley Sawyer made a motion for the Board to approve the Probable Cause Committee Report and recommendations for case #40, as presented. Robert Davidson recused himself from voting on Case #40. Bill Underwood seconded the motion; it was voted on and approved.

Stanley Sawyer presented the Finance and Administrative Committee Report: (copy attached)

- 1) Board expenses have been reviewed and are inline with the budget.
- 2) The Committee agreed that when an application for Reinstatement of a CPA license is received and the individual is involved in a complaint, the reinstatement application will not be processed until such time as the complaint is resolved.
- 3) Mr. Haught recommended through previous communications, we set up a process in which to streamline the preparation of minutes after each Board Meeting. Also, check with the legal

counsel to see if we can include only issues that were resolved in the minutes or if we must include all topics discussed.

- 4) The Short and Long Term Goals as submitted by the Board Members have been reviewed and put into a report; this report has been distributed to all Board Members.
- 5) After some discussion it was recommended that the Board ask Roger Johnson to come to the April or June Board Meeting to discuss on-site vs. off-site peer reviews.

Ken Cozart presented the Licensing Committee Report: (copy attached)

- 1) As reported at the last meeting our Committee decided to have all CPE sponsors on the Board Approved Sponsor List reapply to assure that they should still be on the list. Rule 0020-5-.04(10) gives our Board the authority to approve such sponsors. To date, we have received 5 applications; of those; 4 have been approved and 1 was denied.
- 2) NASBA has issued a new and expanded list of fields of study for CPE courses. Our Committee is trying to figure out where our Board fields of study fit into these expanded fields of study. Specialized Knowledge is an especially difficult field to determine if courses in this category should be considered technical or non-technical. Ethel Mims will be doing more research on this and we will report back to the Board at the April Meeting.
- 3) Our Committee is researching how the on-line renewals will affect the CPE reporting. We hope to have information to report to the Board at the April Meeting.
- 4) The Board has issued 49 initial CPA certificates and 15 reciprocal CPA certificates whose experience and other qualifications have been approved by the Board's staff; 24 of these files have been randomly audited by the Committee Members and are in compliance.

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Bill Underwood presented the Peer Review Committee Report: (copy attached)

- 1) Thirty-seven (37) new firms have registered since the last Board Meeting. The Committee did a spot audit of nine (9) of these firms, which were all in compliance with the law and rules for registration. Mr. Underwood motioned to ratify the approval of the 37 new firms. The motion was voted on and approved.
- 2) The Committee was charged with reviewing the review engagement submitted by Mr. Parrott which was discussed earlier in the Board Meeting.
- 3) 478 firms were due to have a peer review in 2005; of those 452 firms have scheduled or completed their review. We have 26 firms that have not responded to the peer review notices and have been issued a final notice with a due date of February 28<sup>th</sup> to prevent further action.
- 4) Six (6) approved reviews were due to complete the CPE update course for peer review this year. We have two reviewers that have not sent in their certificate of completion and will be notified to forward that information to the Board or they will be removed from the Approved Reviewer List.
- 5) The Committee has approved an Operating Agreement between the State Board and the TSCPA in regards to peer review information being sent to the Board directly from the TSCPA. However, it was discovered yesterday that the Board already has an agreement in place. There are two (2) differences in the agreements; one being the allowance of a State Board Peer review Oversight Committee (PROC) member to also serve on the TSCPA Committee and the other is the allowance of the TSCPA to send a monthly report to the Board of the firms enrolled and in compliance with the TSCPA Peer Review Program. Joseph Buffler made a motion for the Board to approve the new Operating Agreement subject to notice from Mary Moody that there is no conflict of interest. Stanley Sawyer seconded the motion; it was voted on and approved.
- 6) The Committee reviewed information from a firm complaining about one of the TSBA Approved Reviewers. Upon reviewing the response from the reviewer, the Committee agreed no further action was necessary.
- 7) The Committee was presented with a scenario to determine if such firm would be required to register in Tennessee. Our Committee agreed to present the scenario to the full Board for discussion and determination. The firm is located in Tennessee, is owned by the owners of two TN registered firms and offers financial statement reporting, expert witness testimony, business valuation and forensic services. A copy of some of their web pages has been distributed for your reference. After a lengthy discussion Bill Underwood made a motion that the Board determine the

firm must register as a CPA firm in Tennessee. Joseph Buffler seconded the motion; it was voted on and approved.

- 8) As reported at the June, 2005 Meeting, the NCCPAP requested to be approved as a Peer Review Program for Tennessee firms. The Committee deferred this to the PROC to review and verify copyright approval from the AICPA for the use of their manual. The Committee has received information from the AICPA indicating this organization gave inconsistent information regarding the AICPA approval. The Committee has denied their request.
- 9) The Committee approved an extension for a peer review that was due in 2005 to be completed by January 31, 2006. The owner of the firm has the review scheduled and has been sick with cancer and receiving chemotherapy.

Old Business: None

New Business:

The Board was informed of the three (3) changes that have been made to the proposed rules as a result of the Rulemaking Hearing held on November 18, 2005. The changes were: 1) Rule 0020-1-.11(3)(j) will read "The type of peer review program in which the firm participates along with proof of compliance in a manner acceptable to the Board." 2) Rule 0020-3-.06(3) delete the words "directly or indirectly." 3) Rule 0020-5-.03(1)(e) change "forty (40)" to "twenty-four (24)." Vic Alexander mad a motion for the Board to adopt the Notice of Rulemaking Hearing with the three changes from the hearing as the Rulemaking Hearing Notice to be sent to the A.G.'s office. Terri Jeter-McAvoy seconded the motion. The motion was voted on and approved by roll call vote: Joseph Buffler – Yes, Doug Warren – Yes, Ken Cozart – Yes, Stanley Sawyer – Yes, Robert Davidson – Yes, Terri Jeter-McAvoy – Yes, Vic Alexander – Yes, Bill Underwood – Yes, and Al Creswell – Yes.

Mrs. Biek informed the Board Members that the Policy Manual needs to be updated and she has divided the chapters among the board committees. The committee members are allowed to communicate via e-mail or phone to work on revising these policies. The committees should have proposed revisions for the April Meeting.

There being no further business to come before the Board Bill Underwood motioned to adjourn the meeting.

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CHAIRMAN

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SECRETARY

Copies attached:

- Board Meeting Agenda
- Report on Case of Darrel E. Tongate vs State of Tennessee
- Consent agenda
- Executive Director's Report
- Attorney's Report Documents: Failure to Pay Professional Privilege Tax letter  
Notice of Suspension
- Probable Cause Committee Report
- Finance & Administrative Committee Report
- Licensing Committee Report
- Peer Review Committee Report
- New Business Documentation: Amendments to proposed rules from the rule-making hearing